

Going Directly to Conference With Senate:**Panel OKs Retirement Plan; Plans to Bypass House Floor**

After approving a new retirement plan for federal workers Nov. 14, the House Post Office and Civil Service Committee decided to bypass floor action and go directly to conference with the Senate.

The committee's retirement plan (HR 3660) differs substantially from the new system the Senate approved and attached to a minor House-passed post office bill Nov. 7 (HR 2672). (*Weekly Report* p. 2334)

The two measures differ primarily over the cost of the new system. The Senate bill would cut the government's cost of pensions from 25 percent of payroll to 21.9 percent, while the House committee bill would raise the cost to 25.4 percent.

Under the committee bill, approved by voice vote, workers could retire at age 55 after 30 years service and get annual cost-of-living allowances (COLAs) equal to the increase in the Consumer Price Index (CPI). Critics say those provisions, which are features of the current system, drive the cost above private sector plans.

William D. Ford, D-Mich., chairman of the Post Office Committee, said by continuing those provisions, the panel's bill would ensure that new workers receive the same benefits as older workers.

"Workers working side by side should not be perceived as treated differently," he said.

The bills are aimed at workers hired after Jan. 1, 1984, who, unlike their predecessors, pay Social Security taxes and are covered by the Social Security system. The bills would not affect the existing pension plan.

Congress has until Dec. 31 to craft a supplemental retirement system for the newer workers; otherwise, they must pay 7 percent of their salary into the retirement system in addition to the 5.7 percent of their salary they now pay toward Social Security.

—By Robert Rothman

John T. Myers, R-Ind., ranking minority member of the Subcommittee on Compensation and Employee Benefits, said the conference can reconcile the two measures in time to meet the Dec. 31 deadline for setting up a supplemental retirement system.

"The difference between what we want and what the administration wants are close enough that when we go to conference we can work it out," he said.

Bills Compared

Both bills would provide benefits from three sources: Social Security, a basic pension and a thrift plan, which



Rep. William D. Ford, D-Mich.

would allow workers to set aside toward retirement a portion of their wages before taxation, matched by a government contribution.

The Senate bill would offer workers a choice of two retirement systems. One places more emphasis on the thrift plan, and the other, which requires an employee contribution to the retirement system, provides more generous pension benefits.

The Senate measure would reduce the government's cost of pensions, mostly by raising the retirement

age and reducing COLAs for some workers.

Ford said the additional cost of HR 3660 is for extra benefits for higher-paid employees to compensate for Social Security bias, which he said favors lower-income workers.

Officials from the Office of Personnel Management (OPM) say the Reagan administration would support a plan costing 20 percent of payroll, which they argue is the cost of average private sector plans.

Besides maintaining the early retirement age and full COLAs, the House bill would preserve a feature of the current system that bases benefits on the average of the highest three years of salary. The Senate bill would base benefits on the highest five years of salary.

The conference also must decide who would be covered by the new system. The Senate bill would include members of Congress, the Foreign Service and the CIA; the House bill excludes these workers.

In addition, unlike the House bill, the Senate version would allow workers covered by the existing retirement system to join the new plan. Ford said that his bill prohibited older workers from joining the new system in order to avoid having the bill referred to the Ways and Means Committee, which has jurisdiction over Social Security.

HR 3660 would allow older workers to contribute to the thrift plan, but they would not receive a government match.

Senate Provisions

The Senate-passed federal retirement bill establishes a new system of retirement and other benefits for most federal civilian employees covered by Social Security, or those hired after Jan. 1, 1984. Employees would choose within 60 days of joining the government one of two plans. One plan requires an employee contribution; the other does not. Benefits for each option vary.

Major provisions of the bill:

- Defined "average pay," or the amount on which annuities are based, as the highest average rate of basic annual pay computed over five consecutive years. The current retirement system bases annuities on the highest three years of pay.

Government Operations - 2

- Covered employees of federal departments or agencies, U.S. commissioners, employees of Gallaudet College, staff members of former presidents, certain aliens employed by foreign governments and serving the interests of the United States, employees of the U.S. Park Police and Secret Service, congressional employees, members of Congress, employees of the Foreign Service and the CIA.

- **Basic Retirement Plan.** Provided immediate benefits for employees at age 55 after 10 years of service, and age 62 after five years of service. For law enforcement officers, firefighters and air traffic controllers, provided benefits at age 50 after 20 years' service, and at any age after 25 years' service. Permitted employees to defer benefits.

- Based annuities on .9 percent of the employee's average pay multiplied by the number of years' service up to 15 years; 1.1 percent of average pay multiplied by the number of years' service of more than 15 years. For law enforcement officers, firefighters, air traffic controllers and military reserve technicians, the annuity equals 1 percent of salary times the number of years' service.

- Included unused sick leave in determining length of service, if the employee receives immediate benefits or dies.

- Treated part-time service proportionately as a fraction of a year in the annuity formula.

- Reduced annuities by 2 percent a year for each year the employee retires between ages 55 and 62 after 30 years of service, except for those employees choosing the option requiring a contribution to the retirement fund. Reduced annuities by 5 percent a year for each year the employee retires between ages 55 and 62 with less than 30 years' service. The current retirement system provides full benefits at age 55 after 30 years' service.

- Reduced annuities by 10 percent for each survivor benefit the employee chooses.

- Required each agency covered by the bill to contribute to the Civil Service Retirement Fund, out of salary appropriations, the normal cost of benefits for that agency's employees. Required OPM to notify the Treasury of the amount needed to amortize the fund.

- Permitted employees to elect, within 60 days after joining the retirement system, to contribute to the Retirement Fund an amount equal to the

difference between 7 percent of salary and the amount of Social Security tax withheld for old age, survivors and disability insurance. Workers covered by the current retirement system contribute 7 percent of their salary toward retirement.

- Provided that employees who make contributions to the retirement fund may receive the amount of their contribution plus interest if they leave government employment before retirement age.

- **Thrift Savings Plan.** Permitted employees to contribute up to 10 percent of salary to the savings plan, and allowed those receiving disability benefits to contribute up to 10 percent of benefits.

- Provided that the employing agency will match the employee's contribution up to 5 percent of pay on a dollar-for-dollar rate. For those employees choosing the option requiring a contribution to the retirement fund, the agencies will match employee contributions to the thrift fund based on the amount of the employee's contribution. If the employee contributes up to 1 percent of pay, the government will match on a dollar-for-dollar rate; if the employee contributes 2-3 percent of pay, the government will match on a 50 cents-per-dollar rate; if the employee contributes 4-6 percent of pay, the agency will match on a 25 cents-per-dollar rate. The government match will come from salary appropriations.

- Provided that the employee contributions and agency match will not count as gross income for purposes of income taxes but will be included as wages for purposes of payroll taxes, such as Social Security.

- Entitled an employee who leaves the government to receive the amount of the employee's contribution, plus the vested portion of the agency match, together with any gain or loss from investment. The match is vested at 20 percent per year, up to 100 percent after five years.

- Established a Thrift Savings Fund within the Treasury, and permitted employees to elect, at least once a year, whether to invest their thrift plan balances in one of three funds: a government securities investment fund; a fixed-income fund, which invests in insured contracts, certificates of deposit or other securities that guarantee the return of principal plus a specified rate of interest over a certain period of time; or a common stock investment fund.

- **Survivor Benefits.** Provided benefits to the surviving spouse of a retired employee equal to 50 percent of the employee's reduced annuity. For employees who contributed to the basic pension, the survivor benefit equals 50 percent of the annuity. Survivors also receive thrift plan benefits.

- Permitted survivor benefits to be awarded to former spouses of retired employees if mandated by a court decree or if the employee elects to award survivor benefits to a former spouse.

- **Disability Benefits.** Provided benefits to employees under age 62, if they meet the Social Security definition of disability, or under age 55, if, because of injury or illness, they are unable to render useful or efficient service and are not qualified for reassignment to a position in the same commuting area at the same pay or grade level.

- Set benefit levels for those totally disabled at 60 percent of annual pay minus the amount of Social Security disability payments. The benefit is increased by the CPI's growth rate for those electing to contribute to the retirement fund and by the CPI minus 2 percent for those who do not. Those occupationally disabled receive 60 percent of average pay for the first year and 40 percent per year thereafter, until age 55.

- **Cost-of-Living Allowances.** Provided that annuities under the basic pension plan will be adjusted each year, effective Dec. 1. Those who do not contribute to the retirement fund will receive no increase prior to age 62, CPI minus 2 percent from age 62 to 66, and an increase equal to CPI's after age 67. Those who contribute to the fund will receive an increase equal to CPI's minus 2 percent before age 62 and equal to the CPI's after age 62. Currently, annuities are adjusted annually by an amount equal to the CPI increase.

- **Transitional Provisions.** Allowed employees covered by the current civil service retirement system, except those employed by the District of Columbia, to elect to join the new system.

- **Thrift Investment Management.** Established a five-member board to establish policies for the investment and management of the Thrift Savings Fund and for administering thrift plan benefits and survivor annuities payable from the thrift fund. Also established an elected five-member employee advisory committee.

ROOM H-405, U.S. CAPITOL
(202) 225-4121

LEE H. HAMILTON, INDIANA, CHAIRMAN

LOUIS STOKES, OHIO
DAVE MCCURDY, OKLAHOMA
ANTHONY C. BEILSON, CALIFORNIA
ROBERT W. KASTENMEIER, WISCONSIN
DAN DANIEL, VIRGINIA
ROBERT A. ROE, NEW JERSEY
GEORGE E. BROWN, JR., CALIFORNIA
MATTHEW F. MCHUGH, NEW YORK
BERNARD J. DWYER, NEW JERSEY

BOB STUMP, ARIZONA
ANDY WELAND, FLORIDA
HENRY J. HYDE, ILLINOIS
DICK CHENEY, WYOMING
BOB LIVINGSTON, LOUISIANA
BOB MCWEN, OHIO

THOMAS K. LATIMER, STAFF DIRECTOR
MICHAEL J. O'NEIL, CHIEF COUNSEL
STEVEN K. BERRY, ASSOCIATE COUNSEL

U.S. HOUSE OF REPRESENTATIVES
PERMANENT SELECT COMMITTEE
ON INTELLIGENCE

WASHINGTON, DC 20515.

Executive Registry

85- 4465

LEGISLATIVE LIAISON

85-3566

November 14, 1985

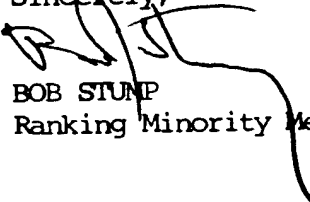
Honorable William J. Casey
Director of Central Intelligence
Washington, D.C. 20505

Dear Director Casey:

As you know, the House and Senate may soon reach conference on H.R. 2672, which, as amended by the Senate, contains a number of provisions specifically addressing the retirement systems applicable to Central Intelligence Agency employees, referred to as the Eagleton-Durenberger Amendment. The House Permanent Select Committee on Intelligence is expected to have a significant role in shaping the outcome of the conference with respect to these provisions.

I would appreciate receiving, as soon as possible, the Administration's written views on the CIA retirement-related provisions of H.R. 2672 as passed by the Senate.

Sincerely,


BOB STUMP
Ranking Minority Member

Central Intelligence Agency



Washington, D.C. 20505

OLL85-3566/1

21 NOV 1985

Mr. James M. Frey
 Assistant Director for Legislative
 Reference
 Office of Management and Budget
 Washington, D.C. 20503

Jim
 Dear Mr. Frey:

Enclosed for OMB's review and approval is a draft letter to Representative Stump, Ranking Minority Member of the House Permanent Select Committee on Intelligence, responding to his request for the Administration's views on the Central Intelligence Agency (CIA) retirement related provisions of H.R. 2672. With one exception relating to the limited election provided Agency "Civil Service" employees hired after 31 December 1983, the letter states that the Administration has no objection to the provisions of H.R. 2672 as they relate to CIA employees.

Given the fact that House and Senate staffers are already meeting to discuss the upcoming Conference on this bill, we would appreciate expeditious OMB review and approval of the attached letter.

Sincerely,

Charles A. Briggs
 Director, Office of Legislative Liaison

Enclosure

Distribution:

- Original - Addressee
- 1 - Director, Office of Personnel
- 1 - General Counsel
- 1 - Deputy Director for Administration
- 1 - Executive Director
- 1 - DDCI
- 1 - Executive Registry (Reference/Your #4465)
- 2 - D/OLL + DD/OLL
- 1 - SWH/Signer
- 1 - OLL/LEG: Subject:

OLL/LEG  pap (21 Nov 85)

Central Intelligence Agency



Washington, D.C. 20505

The Honorable Bob Stump
Permanent Select Committee on Intelligence
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Stump:

This letter is in response to your request for the Administration's written views on the ~~CIA~~ retirement related provisions of HR 2672, including the Eagleton and Durenberger amendments. Our response has been cleared with the Office of Management and Budget.

The Administration recognizes that there are unique management requirements associated with the Agency and agrees that we have a special case to make for our employees. The Administration's original intent was to remain silent on the specific retirement needs of the Agency while the larger Government-wide retirement reform was reviewed. Unfortunately, the intensity of the retirement issue and the events in the Senate changed that position and while the Administration would have preferred to wait until next year, they have no objection to the provisions of HR 2672 as they relate to CIA employees.

I must, however, draw your attention to the fact that a technical amendment to HR 2672 is necessary. Specifically, this amendment must correct the fact that under HR 2672 employees in the Agency covered by Civil Service retirement, and hired after 31 December 1983, are not provided the opportunity to select Option B under HR 2672. Option B provides for an additional 1.3% employee contribution in order to permit retirement at age 55 without a reduction in annuity. Without an amendment to HR 2672, these Agency employees would not be provided the same choices as all other Civil Service participants. The Administration supports this amendment.

I trust our response will be helpful to you in your attention to this important piece of legislation. If we can be of any assistance to you or your staff related to the impact of

any provisions of HR 2672, we are available to assist you. Please do not hesitate to call on us. As you know, I am deeply committed to ensuring that the Agency's mission is not adversely affected by the provisions of retirement systems enacted for CIA employees.

Sincerely,

John N. Mc Mahon
Acting Director of Central Intelligence

Central Intelligence Agency



Washington, D.C. 20505

OLL86-0033

8 JAN 1986

Mr. James Frey
Assistant Director for Legislative Reference
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Frey:

This letter is in response to your staff's request of 9 December 1985 for the proposed technical amendment to H.R. 2672 cited in our letter to Congressman Stump which you are currently reviewing. As stated in that letter, amendments are necessary to provide Agency employees the same retirement options afforded all other Civil Service participants.

Subsection 301(b)(2) of Title IV of H.R. 2672 currently prohibits all Agency employees hired after 31 December 1983 from electing the early retirement Option B contained in H.R. 2672. The first amendment required is a change to subsection 301(b)(2) to read as follows:

"(2) Participants in the Central Intelligence Agency Pension System who meet the criteria set forth in §203 as determined by the Director, who make the election described in §203, and who previously had made the election authorized by §8418 (c) of Title 5, United States Code, shall not be entitled to any special benefits under chapter 84 of such title which result particularly from the election authorized by §8418 (c) of Title 5, United States Code, but shall be entitled to benefits as provided in §304 of this title".

By limiting the restrictions in subsection 301(b)(2) of Title IV to participants in the Central Intelligence Agency Pension System who meet the criteria set forth in §203 of the Central Intelligence Agency Retirement Act of 1964 and who make the election described therein, the proposed amendment ensures that all Agency employees will have the opportunity to choose either Option A or B at the beginning of their careers. However, once an employee qualifies under §203 of the CIA Retirement Act and makes the election described therein, the employee would receive benefits under §304 of the CIA Retirement Act and would be precluded from obtaining any

special benefits by reason of his previous decision to elect Option E. As you know, Section §203 of the CIA Retirement Act spells out the criteria needed to qualify for participation in the CIA Retirement and Disability System.

The purpose of our second amendment would be to establish a mechanism for employees to make the transition from Option E to the special category of retirement benefits provided for those who meet the eligibility criteria contained in §203 of the CIA Retirement Act. This proposed amendment would create the following new subsections to 301 (b):

"(3) Participants in the Central Intelligence Agency Pension System described in subsection 301(b)(2) shall have refunded to them their contributions made pursuant to §8418(c) of Title 5, United States Code.

(4) With respect to a participant in the CIA Pension System described in subsection 301(b)(2), who has made contributions to the Thrift Savings Plan established by subchapter III of chapter 84, Title 5, United States Code, the Agency, at the time such participant makes the election described in §203, and notwithstanding any other provision of law, shall make a contribution to the Thrift Savings Fund for the benefit of such participant in an amount equal to--

(a) the amount the Agency would have contributed for the benefit of such participant in accordance with §8421 (b)(2)(A) of Title 5, United States Code, had the participant not made the election authorized by §8418 (c) of such title, less

(b) the amount the Agency has contributed for the benefit of such participant in accordance with §8421 (b)(2)(B) of Title 5, United States Code, plus

(c) any additional amount of interest and any additional earnings of the Thrift Savings Plan which constructively would have accrued to the participant's account, had the excess of (a) over (b) actually been contributed by the Agency on a year-by-year basis for the participant's benefit."

It is necessary to have the above transition rules because an employee at the beginning of his career may choose Option E in the belief that he/she will not qualify under §203 of the CIA Retirement Act. Under Option B, an employee is required to contribute 1.3% of his salary to the government. If that

employee subsequently does qualify under §203 of the CIA Retirement Act, proposed subsection 301(b)(3) would ensure that the employee's contributions made while under Option B are returned to him. Without such a mechanism, the government could obtain a windfall because an employee's contribution of 1.3% of pay annually under Option B would not be needed once that individual qualified under §203 of the CIA Retirement Act for benefits payable under the new §304 of the CIA Retirement Act.

Proposed subsection 301(b)(4) provides transition rules for handling the Thrift Plan. As you are aware, an employee qualifying under §203 of the CIA Retirement Act would be precluded from participation in an Option B Thrift Plan. However, such an employee prior to qualifying under §203 of the CIA Retirement Act may have elected Option B upon entrance on duty with the Agency. Clearly, some method must be devised for transition from a Thrift Plan established under Option B to a Thrift Plan governed by Option A rules for special categories with respect to the government contribution. We believe this matter should be resolved by the general principle that an employee's retirement benefits should be calculated from the period when government service begins even though the employee may not qualify for special retirement benefits until later in his/her career. This principle is consistent with the current practice under CIARDS to calculate an employee's annuity using a 2% accrual rate from the time that employee begins his career with the Agency, even though he/she may not qualify for CIARDS for a number of years following the individual's employment with the Agency.

The proposed amendment subsection 301(b)(4) would ensure that an employee who elects Option B at the beginning of his career and sets up a Thrift Plan would have his Option B Thrift Plan converted retroactively to an Option A Thrift Plan upon meeting the eligibility criteria contained in §203 of the CIA Retirement Act. This would be accomplished by authorizing the Agency to make a contribution to the Thrift Plan to cover the difference between the amount actually contributed by the Agency and the amount that would have been contributed by the Agency to the Thrift Plan had the employee selected Option A at the beginning of his career. The Agency also would be authorized to contribute an additional amount to cover any earnings which constructively would have accrued to the employee's account based on the additional contribution of the Agency to the Thrift Plan. This will guarantee that Agency employees who qualify under §203 of the CIA Retirement Act will have the opportunity to receive the same benefits as law enforcement officers, firefighters, or foreign service officers who are also placed in a special category under H.R. 2672.

Our final amendment would be to Subsections §304(a), (c) and (d) of the CIA Retirement Act, as added by Title IV of H.R. 2672. In each of these subsections we would delete the phrase "who is described in §203" and insert in lieu thereof the following: "who meets the criteria set forth in §203 as determined by the Director and who makes the election described in §203".

I trust this language will be helpful in completing your review of our letter to Congressman Stump, and we look forward to your approval of the letter to the Congressman in the very near future.

Sincerely,

/s/Charles A. Briggs

Charles A. Briggs
Director, Office of Legislative Liaison

Distribution:

Original - Addressee

1 - D/OP

1 - D/OLL

1 - DD/OLL

1 - OLL Chrono (Reference #OLL85-3787/1 - an ACTION item)

1 - OLL/Legislation Subject (Retirement)

1 - DMP/Signer

1 - OGC

OLL/LEG:DMP/D/OP:pap (31 Dec 1985)